S2120-HC

DEPARTMENT OF TAXATION

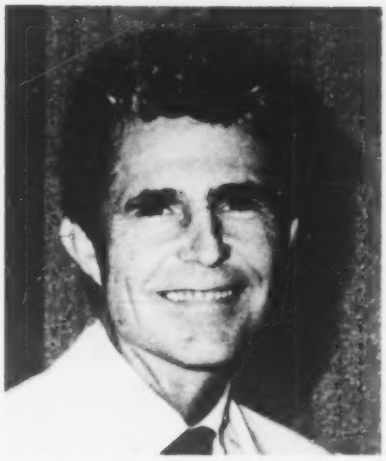
ANNUAL REPORT 1988-1989



Maui District Office staff in front of State Office Building, Wailuku.



The Honorable John Waihee
Governor
State of Hawaii



Richard F. Kahle, Jr.
Director of Taxation
State of Hawaii

October 3, 1989

The Honorable John Waihee
Governor, State of Hawaii
Honolulu, Hawaii

Dear Governor Waihee:

It is with pleasure that I present you with this annual report of the Department of Taxation's activities for the fiscal year ending June 30, 1989.

The department continues to strive toward providing the best possible service for the people of Hawaii. Advances include a major divisional reorganization, the appointment of a second deputy director, Joyce T. Omine, increased automation, and numerous operational improvements. In addition, work is progressing on the general excise/use/withholding and transient accommodation tax system project.

Throughout the year, I am gratified by the dedication, diligence and support of the department's employees.

Highlights of the department's accomplishments for the year are accompanied by relevant statistical tables and charts in this report.

Respectfully submitted,

Richard F. Kahle Jr.

RICHARD F. KAHLE, JR.
Director of Taxation

TABLE OF CONTENTS

PAGE

LETTER OF TRANSMITTAL TO THE GOVERNOR ..... Inside Front Cover

THE YEAR IN REVIEW 2
- Administration 2
- Tax Services and Processing Division 2
- Audit Division 3
- Collection Division 3
- Staff Offices 3

MANAGEMENT PERSONNEL 6

ORGANIZATION CHART 7

DISTRICT OFFICES 8

TAX APPEALS AND LITIGATION 10
- Boards of Review 10
- Court Cases and Legal Actions 10

LEGISLATION 11

INCOME ASSESSMENT AND AUDIT 12
- Individual Income Tax 12
- Corporate Income Tax 13
- General Excise and Use Taxes 13
- Transient Accommodations Tax 15
- Fuel Taxes 15
- Public Service Company Taxes 18
- Inheritance and Estate Taxes 18
- Other Taxes 18

COLLECTION AND ACCOUNTING OF TAXES 19
- Tax Collections 19
- Delinquent Taxes 22

STATE GENERAL FUND 23

SPECIAL PURPOSE TAXES 25

BRIEF SUMMARY OF HAWAII'S TAX SYSTEM 26
- Outline of Hawaii Tax System 27

TRAINING PROGRAMS 29

COUNCIL ON REVENUES 31

BOARDS OF REVIEW 31

TAX REVIEW COMMISSION 31

THE YEAR IN REVIEW

ADMINISTRATION

The Department of Taxation accomplished a reorganization of the Compliance Division into the Audit Division and the Collection Division. The major functions of the Audit Division are to provide efficient handling services and timely processing of tax returns and documents, and to promote self-assessment and voluntary compliance with Hawaii tax laws. The Collection Division's functions are to collect delinquent state taxes and to enforce the non-filers compliance programs.

The 1989 Legislature passed Acts 321 and 322 which continued Governor Waihee's tax relief initiative of 1987. Effective with the 1989 tax year, the new laws reduced income tax rates, raised the standard deduction, created a refundable medical services excise tax credit, and liberalized the dependent care and low-income household renter's credits.

In an effort to keep departmental personnel fully informed, the department published the Employee Handbook for all members of the department. Topics covered in the handbook include general background on the tax department and tax system and administrative guidelines on employee responsibilities, benefits, and personnel practices.

Ongoing long-range projects include the general excise, withholding, and transient accommodation tax redesign project; refinement of the department's rules; and tax information pamphlets.

TAX SERVICES AND PROCESSING DIVISION

The objectives of the Tax Services and Processing Division are to process all tax documents, to maintain accurate tax accounting records, and to assist taxpayers through correspondence, telephone, or personal contact.

Centralized front-end processing was started this fiscal year. Processing of unemployment insurance payments was centralized in July, 1988. Beginning in January, 1989, tax returns and documents received by the Maui district office were forwarded to Oahu for complete processing. The addition of Maui returns and a 14.5% increase in Oahu's mail, resulted in a 27.3% workload increase for Oahu front-end processing, which was alleviated by hiring additional workers for the peak season. The department processed all returns on a timely basis.

The Documents Processing Branch again maintained two working shifts from January to May in its Receiving and Sorting and Data Preparation Sections. Of the 52,000 pounds of Oahu and Maui mail received during the period, 10,600 pounds or 20.4% was received during the week of April 17 to 22, 1989. Over 3,000 pieces of mail were collected by employees who assisted taxpayers outside the building from 5:00 p.m. to midnight on the filing due date for net income tax returns.

During tax season, the Data Entry Section maintained 24-hour operations, while the File Maintenance Section began a night shift to handle the high volume of document retrieval requests.

The Revenue Accounting Branch began centralized statewide processing with four-copy refunds of general excise, withholding, transient accommodations and other tax over-payments by summary warrant voucher. Centralized processing of over 1,300 refunds saved at least five working days processing time. From January to June, 1989, a total of 352,210 claims for 1988 net income tax refunds were processed, averaging $343 per return.

Under the Tax Assistance Program (TAP), the Information Section of the Taxpayer Services Branch continued to assist taxpayers. Two half-time temporary personnel prepared 4,211 net income tax returns for the public, an increase of 25.1% over the previous year. Two temporary tax clerks and two field auditors assisted in answering telephone inquiries during the tax season. The installation of the automatic call distribution telephone system enabled all calls to be answered on a first in, first out basis.

Each year the Taxpayer Services Branch assists in the VITA (Volunteer Income Tax Assistance) program which is conducted by the Internal Revenue Service. This year, a total of 489 volunteers, 39 from the department, went to several locations around the island to help taxpayers prepare 6,850 federal and 10,276 state net income tax returns.

A total of 25,683 general excise/use tax licenses, 710 transient accommodations tax certificates of registration and 9,359 tax clearance certificates were issued by the License and Clearance Section.

AUDIT DIVISION

The primary objective of the Audit Division is to maximize voluntary public compliance with Hawaii's tax laws.

Despite staff deployment to department-wide projects, the Audit Division managed its usual workload of audits. The neighbor island districts emphasized taxpayer services (counter, tax preparation and telephone information) in order to increase taxpayer compliance.

A basic tax auditing course module, the first of several, was developed and introduced to the auditors as part of the department's employee development program. On-the-job orientation to familiarize the field auditors with other functions of the department was also started.

With the increase in national and international corporations doing business in Hawaii and with the advancement in computer technology, the department reinstated audits conducted outside Hawaii. Besides paying for itself, this program raises the department's visibility outside the state and promotes compliance.

COLLECTION DIVISION

In its first complete year of operations as a division, the Collection Division saw several notable accomplishments. Total statewide delinquent balance outstanding at fiscal year end decreased slightly. This occurred despite a 15% increase in the number of new referral accounts. Actual cash collections increased 2%.

The non-filer program showed continued positive growth in all key measurements. Nearly 19,000 taxpayers were contacted, a 50% increase over FY 1988, and almost $10.0 million in cash was collected, a 10% increase over last year. In the document processing area, the neighbor island collection branches continued to reflect growth in the various activities. Collections for current taxes, mail pieces processed, and tax clearances issued were processing activities with the most noticeable increases in the neighbor island district branches.

STAFF OFFICES

Administrative Services Office

Fiscal Office

The Administrative Services Office presented its fiscal biennium budget 1989-90 and 1990-91 to the 1989 Legislature. All funding requested for the final phases of the General Excise/Withholding and Transient Accommodations Tax (GEW/TAT) project was granted and a second deputy director was approved for the department.

Departmental operating expenditures this year totaled $13.7 million. The cost per $100 of tax collected amounted to 57¢ for fiscal year 1989. For fiscal year 1988 the cost per $100 of taxes collected amounted to 52¢.

Personnel Management

The legislature authorized the department 371 positions for the fiscal year. The positions were geographically distributed as follows: Oahu 299; Hawaii 35; Maui/Molokai 23; and Kauai 14.

Personnel transactions/movements within the department included 33 civil service new hires for permanent regular positions, 132 hires for temporary appointments, and 11 retirements. Other transactions included 50 promotions, transfers and reallocations; 18 resignations; and 80 terminations involving temporary positions.

STAFFING PATTERN
(Number of Authorized Permanent Positions)

By Organizations/Operating Programs	1989	1988	1987
Headquarters Administration	58	49	47
Tax Services and Processing Division	94	93	83
Compliance Division[1]	—	212	197
Audit Division	123	—	—
Collection Division	96	—	—
	371	354	327

By Islands		
Oahu	—	299
Hawaii	—	35
Maui/Molokai	—	23
Kauai	—	14
Total	—	371

NOTE: The above does not include (a) temporary clerical support positions utilized during the peak periods and special projects, and (b) temporary student positions during the summer.

[1]Compliance Division was reorganized resulting in separate Audit and Collection Division.

Systems and Procedures Office

The Systems and Procedures Office has spearheaded the department's redesign of the integrated General Excise/Use/Withholding and Transient Accommodations Tax (GEW/TAT) system. The system is being designed to provide such features as on-demand printing of taxpayer correspondence and booklets, automatic audit selection, and ready staff access to consolidated taxpayer information.

In March, 1989, the department completed its Distributed Information Processing and Information Resource Management (DIPIRM) plan and presented it to the legislature. This plan defines the department's strategy for implementing automation and outlines how the department will manage information resources. A computer committee was formed to implement the DIPIRM plan and oversee departmental equipment needs for the new GEW/TAT system.

Sixteen personal computers and several additional printers were installed throughout the department this year. Additional equipment to support the new GEW/TAT system statewide is forthcoming. Two communications networks for the department have been converted to the state's Civic Center Area Network. The remaining networks will be converted by year-end. Conversion to this network will result in better communications and substantial cost savings for the department.

Income Technical Office

For the 1989 legislative session, the Income Technical Office drafted 18 administration-sponsored bills, 12 of which were enacted into law. Testimonies were prepared on 131 House Bills, 141 Senate Bills, 3 House Resolutions, and 1 Senate Resolution, and responses were prepared to 11 legislative requests for information. Staff also served as resource persons at various legislative committee public hearings.

Recommendations to the governor were prepared on 24 tax bills passed by the 1989 State Legislature. In addition, a "Digest of Tax Measures" for the prior legislative session was issued in November, 1988.

With respect to tax interpretations, the Income Technical Office issued the following:

(1) Number of Governor's letters — 70;
(2) Number of Director's letters — 521;
(3) Number of letter rulings and general correspondences — 1,629;
(4) Number of Tax Information Releases — 6;
(5) Number of Departmental announcements — 5; and
(6) Number of Rules — 4 (two involved telecommunication apportionment factors while the others involved transient accommodations tax and modification of the liquor tax rates).

In the area of tax law education, nearly 1,300 hours of training was provided to departmental employees which included understanding and using the Prentice-Hall Tax Service, PHINet hands-on training, 25th Annual Hawaii Tax Institute, 1988 income tax update, and current tax law changes.

The Income Technical Office reviewed applications by nonprofit organizations seeking exemption from the payment of the general excise tax. During the fiscal year, 72 new applications were received, 86 approved, 1,323 renewals acted on, and 41 applications and 35 renewals are still pending.

Through the Forms Control Committee, the Income Technical Office was responsible for reviewing and updating 156 forms and 28 instructions this year. Seven new forms and 1 new instruction were created, and 9 forms made obsolete.

Tax Research and Planning Office

In November, 1988, the Tax Research and Planning Office published two recurring reports, one of which was the biennial "Hawaii Income Patterns — Corporation, Proprietorship, Partnership" for the tax year 1985. Of 86,386 business entities in Hawaii, 62% showed a net profit. Business receipts amounted to $26.2 billion and net profits totaled $1.6 billion.

The other report published in November was the annual "Tax Credits Claimed by Hawaii Residents" for the tax year 1986. Of the total $22.5 million in credits claimed, $12.8 million was for excise tax credits, $4.3 million for renter's credits, and $4.2 million for dependent care credits. Energy device credits dropped drastically to $0.4 million from $2.7 million in 1985 because of the removal of the incentive of the 40% federal credit.

March, 1989, saw the publication of the annual "Hawaii Income Patterns — Individuals", which contained detailed information on income, adjustments, exemptions, deductions, and tax liability reported by Hawaii's taxpayers on their 1986 returns. One of the most significant developments in 1986 was a large increase in resident net capital gains from $161 million to $302 million, much of which was probably due to taxpayer reaction to the impending loss of the long term capital gains exemption.

In January, 1989, the legislature was presented with the third annual report of the results of the 1986 liquor tax law which had changed the method of assessment from a 20% ad valorem rate to gallonage rates to be adjusted periodically. For the 1988-89 fiscal year, total collections amounted to $38.1 million, which included $3.1 million from military sales, which had not been taxed under the previous law. However, if all sales had been subject to the old 20% ad valorem rate, revenue would have been $44.5 million.

The Tax Research and Planning Office provided the 1989 Legislature with revenue impact information on measures dealing with taxation and supplied the Council on Revenues with ongoing staff assistance for its projections of general fund tax revenues and state total personal income.

MANAGEMENT PERSONNEL

OFFICE OF THE DIRECTOR

Director of Taxation	Richard F. Kahle, Jr.
Deputy Director of Taxation	Gary S. Mijo
Deputy Director of Taxation	Joyce T. Omine

STAFF OFFICES

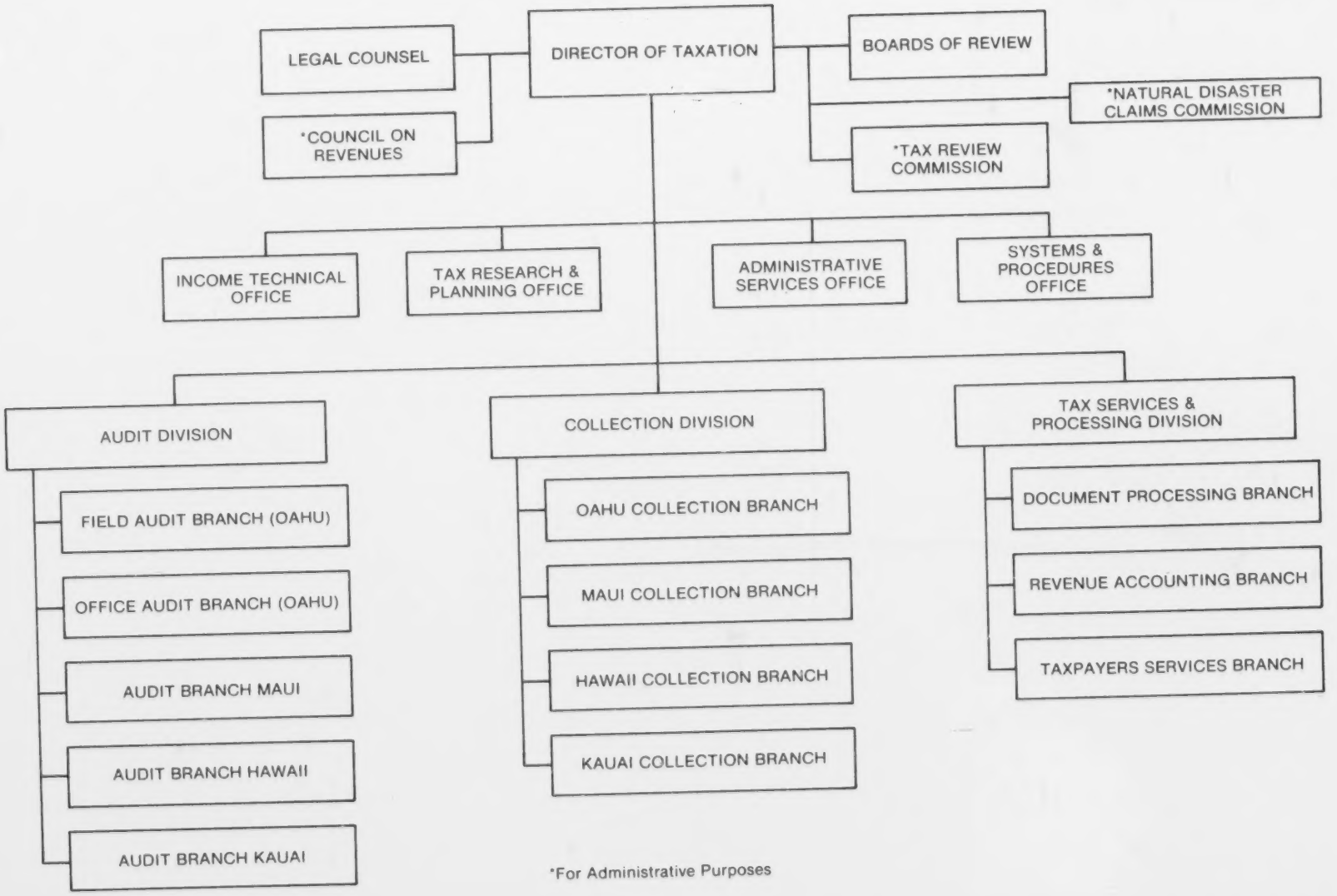
Income Technical Officer	Ronald Choy
Tax Research and Planning Officer	Robert Koike
Systems and Procedures Officer	Vacant
Administrative Services Officer	Warren Higashi

OPERATIONS STAFF

Audit Division Chief	Kenneth Murayama
1st Taxation District (Oahu)	
Field Audit Branch	Takeo Tanouye
Office Audit Branch	Ronald Randall
2nd Taxation District (Maui)	Janis Shinyama
3rd Taxation District (Hawaii)	Ronald Yabe
4th Taxation District (Kauai)	Ernest Balderas
Collection Division Chief	Wayne Kinoshita
1st Taxation District (Oahu)	Vacant
2nd Taxation District (Maui)	Stanley Ching
3rd Taxation District (Hawaii)	Wendell Serrao
4th Taxation District (Kauai)	Helen Teraoka
Tax Services and Processing Division Chief	Marie Okamura
Taxpayer Services Branch	June Yamamoto
Document Processing Branch	Richard Yokota
Revenue Accounting Branch	Jerry Ebesu

ORGANIZATION CHART

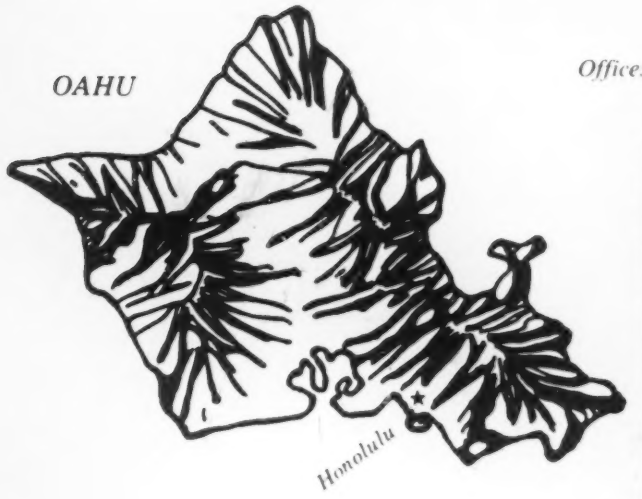
Department of Taxation
State of Hawaii



*For Administrative Purposes

FIRST TAXATION DISTRICT

Island of Oahu

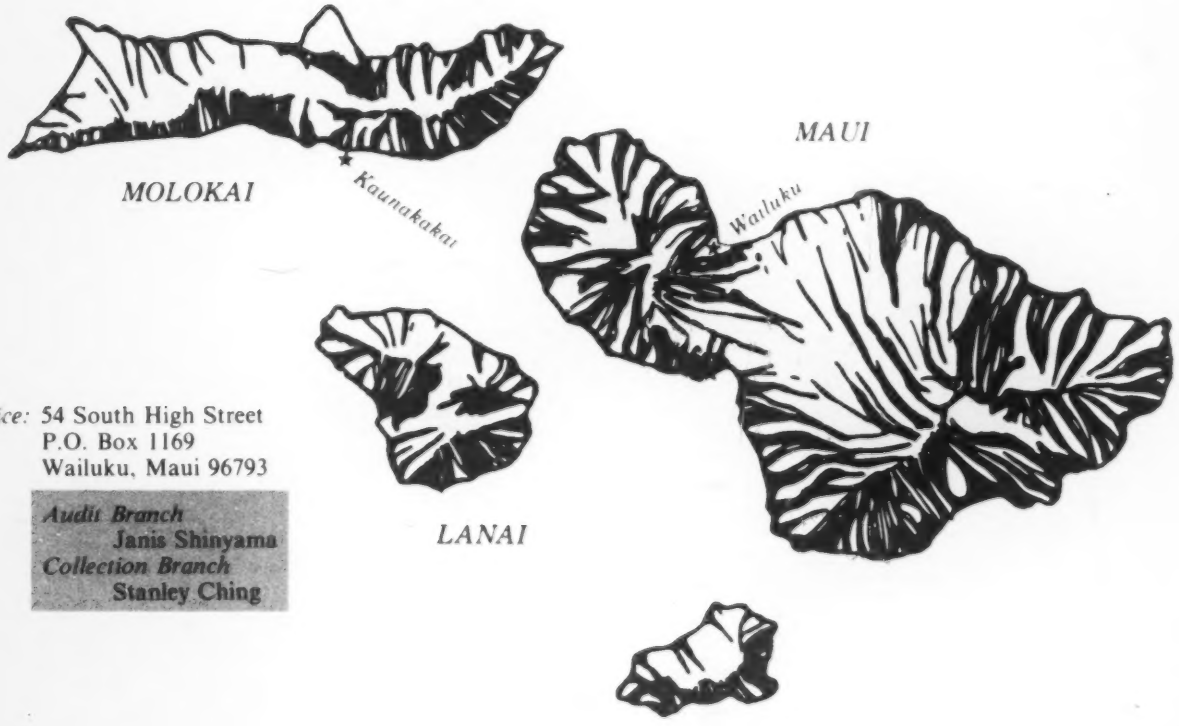


Office: 830 Punchbowl Street
P.O. Box 259
Honolulu, Hawaii 96809

Audit Division Chief
Kenneth Murayama
Office Audit Branch
Ronald Randall
Field Audit Branch
Takeo Tanouye
Collection Division Chief
Wayne Kinoshita
Collection Branch
Vacant
Tax Services & Processing Division Chief
Marie Okamura
Taxpayer Services Branch
June Yamamoto
Document Processing Branch
Richard Yokota
Revenue Accounting Branch
Jerry Ebesu

SECOND TAXATION DISTRICT

Islands of Maui, Molokai, and Lanai



Office: 54 South High Street
P.O. Box 1169
Wailuku, Maui 96793

Audit Branch
Janis Shinyama
Collection Branch
Stanley Ching

THIRD TAXATION DISTRICT

Island of Hawaii

Office: 75 Aupuni Street
P.O. Box 1377
Hilo, Hawaii 96721

Audit Branch
Ronald Yabe
Collection Branch
Wendell Serrao



FOURTH TAXATION DISTRICT

Islands of Kauai and Niihau



Office: 3060 Eiwa Street
P.O. Box 1689
Lihue, Kauai 96766

Audit Branch
Ernest Balderas
Collection Branch
Helen Teraoka

TAX APPEALS AND LITIGATION

BOARDS OF REVIEW

Regarding the appeals before the Boards of Review during fiscal year 1988-89, a district-by-district summary is as follows:

	Oahu	Maui	Hawaii	Kauai
Appeals Pending at Start of Fiscal Year ..	46	17	13	—
New Appeals Filed	23	4	10	—
Appeals Settled	30	6	12	—
Appeals Pending at End of Fiscal Year ...	39	15	11	—

Of the 48 appeals settled during fiscal year 1988-89, 25 were in favor of the state, 10 were in favor of the taxpayer, 8 were split decisions, 4 were withdrawn, and 1 was transferred to the Tax Appeal Court. The total amount of tax liability on appeal was $1,847,751.

COURT CASES AND LEGAL ACTIONS

During the fiscal year ended June 30, 1989, several tax appeals which may have substantial impact upon taxpayers were filed. As of June 30, 1989, these cases were in various stages of the judicial process with the final judicial determination expected sometime during the 1989-90 fiscal year. The total tax liability due to the State from case settlements amounted to approximately $2.3 million.

CASES SETTLED

1. **Aloha State Corporation,** T.A. No. 2594
2. **American Hospital Supply Corp.,** T.A. No. 2427
3. **Century 21 Realty Specialist Corp.,** T.A. No. 2516
4. **Ebesu,** T.A. No. 2563
5. **Farrand,** T.A. No. 2640
6. **Hagihara,** T.A. No. 2531
7. **Sumner-Mack,** T.A. No. 2559
8. **Zenger,** T.A. No. 2556

OTHER MATTERS CLOSED

1. **Appeals** — 18
2. **Bankruptcies** — 14
3. **Foreclosures** — 42
4. **Subpoenas** — 62
5. **Opinions** — 37
6. **Contracts/Bids** — 46
7. **Miscellaneous** — 23

LEGISLATION

Twenty-four tax measures were enacted into law during the 1989 Legislative Session. The following briefly describes some of the more significant acts:

Act No.	Tax Law and Brief Description
6	General Excise Tax: Provides for the payment of a one-time $20 licensing fee for general excise tax licensees and nonprofit organizations. Effective January 1, 1990.
14	Administration of Taxes: Prepares for the repeal of the real property taxation after the complete transfer of the real property tax function to the various counties. Effective April 11, 1989.
149	Liquor Tax Law: Amends the Liquor Tax Law to retain the current method of taxing liquor on a gallonage method and preserves the liquor tax rate adjustment formula; places a moratorium on the adjustment of tax rates until June 30, 1991. Effective June 7, 1989.
199	Transient Accommodations Tax: Eliminates the annual registration and renewal fee of $1 for transient accommodations operators, and provides for a one-time registration fee. The fee is $5 for each registration consisting of 1 to 5 units and $15 for 6 or more units. Effective January 1, 1990.
237	General Excise Tax: Extends the authority of the Housing Finance and Development Corporation to approve and certify, for exemption of general excise tax, qualified persons or firms which are involved in moderately or substantially rehabilitated projects. Retroactive to April 20, 1988.
307	Net Income Tax: Increases the energy conservation tax credit to 20 percent of the cost of all wind or solar energy devices, heat pumps, or ice storage systems placed in service after December 31, 1989. Effective January 1, 1990.
321	Net Income Tax: Provides a new refundable medical services excise tax credit for each qualified resident (effective until December 31, 1991), increases standard deduction amounts, reduces the effective income tax rates for all classes of taxpayers, increases amount of adjusted gross income limit for claiming the renter's credit, and makes the dependent care credit refundable. Effective January 1, 1989.
322	Net Income Tax: Increases the range on dependent care credit for resident individuals from 10 to 15 percent to 15 to 25 percent of employment related expenses. Effective January 1, 1990.
323	Net Income Tax: Provides a $125 general income tax credit to qualified resident taxpayer for the taxable year 1989. Effective June 14, 1989.
368	General Excise Tax: Provides for the deposit of $90 million of general excise tax revenues realized into the State Educational Facilities Improvement Special Fund each year on or about September 1 for years 1989 through 1995 Effective July 1, 1989.

INCOME ASSESSMENT AND AUDIT

INDIVIDUAL INCOME TAX

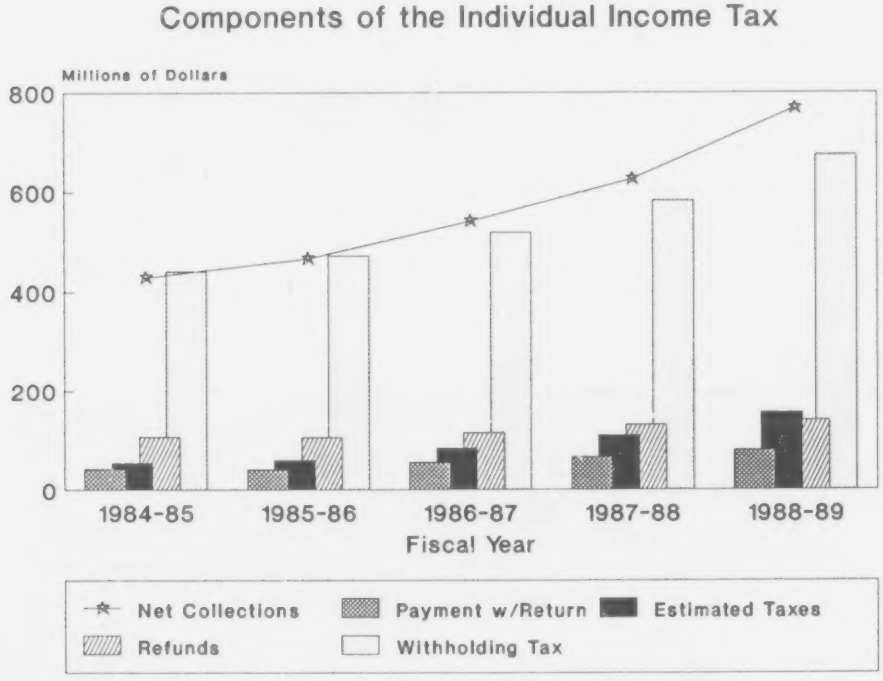
Net individual income tax collections after refunds rose a strong 22.6% during fiscal 1989. Reflecting a higher employment climate, withholding taxes on wages, the largest component of the individual income tax, increased 20%. The 43.1% surge in declaration of estimated taxes means that individual taxpayers anticipated increased income, an indicator of a strengthening economy.

After increasing 14.3% from fiscal 1987 to fiscal 1988, total refunds increased by a more moderate 7.7% in fiscal 1989. The average refund during the January to June tax season in 1989 averaged $346 as compared to $317 for the corresponding period in 1988.

TAXES PAID BY INDIVIDUALS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1989	FY 1988	1988-89	1985-89
Declaration of Estimated Taxes	$155,078	$108,349	43.1%	28.7%
Payment with Return	79,142	65,052	21.7%	18.9%
Withholding Tax on Wages	673,736	582,986	15.6%	10.0%
SUBTOTAL	$907,956	$756,387	20.0%	12.9%
Refunds	140,367	130,378	7.7%	8.2%
NET	$767,589	$626,009	22.6%	13.9%

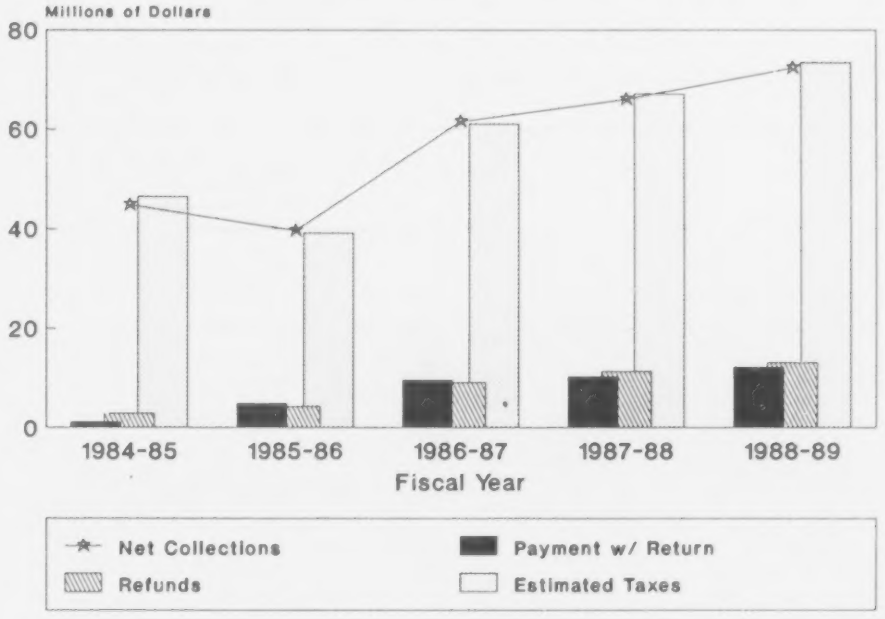
NOTE: Due to rounding, details may not add to totals.



CORPORATE INCOME TAX

After rising sharply in fiscal 1987, corporate income tax collections increased by more moderate amounts in fiscal 1988 and 1989. After refunds, the increase for fiscal 1989 was 9.6%. All components of the tax rose. A $1.8 million increase in payments with returns nearly matched a $1.9 million rise in refunds but a $6.4 million rise in declarations of estimated taxes resulted in the 9.6% increase in net collections.

Corporate Income Tax Components



TAXES PAID BY CORPORATIONS
(In Thousands of Dollars)

	FY 1989	FY 1988	Av. Annual Change (Percent) 1988-89	1985-89
Declaration of Estimated Taxes	$73,433	$67,016	9.6%	14.9%
Payment with Return	12,054	10,294	17.1%	89.0%
SUBTOTAL	$85,487	$77,310	10.6%	18.3%
Refunds	13,148	11,293	16.4%	35.3%
NET	$72,339	$66,017	9.6%	16.7%

NOTE: Due to rounding, details may not add to totals.

GENERAL EXCISE AND USE TAXES

Representing 45% of total state tax collections, general excise and use taxes were the state's largest tax revenue source. These taxes increased by 11.4% from the previous fiscal year and topped $1 billion for the first time. Taxes on retailing provided 42.7% of this total. Activities taxed at the 4% rate accounted for over nine-tenths of general excise and use tax revenue and seven-tenths of the tax base.

Every activity category except sugar processing showed an increase. The sharp 88% decline in revenue from sugar processing was a result of an exemption for the exports of agricultural cooperatives claimed by sugar companies as a result of Act 173 enacted by the 1988 legislature.

GENERAL EXCISE AND USE TAX BASE AND TAXES
FOR THE FISCAL YEARS ENDING JUNE 30, 1989 AND 1988
(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	1989	1988	% Change
TAX BASE				
Retailing		$10,950,145	$10,046,654	9.0
Services		3,519,226	3,068,201	14.7
Contracting		2,753,906	2,199,838	25.2
Hotel Rentals		1,440,193	1,416,790	1.7
All Other Rentals		2,451,201	2,189,637	11.9
All Others (4%)		2,207,745	1,774,181	24.4
Subtotal		$23,322,416	$20,695,301	12.7
Sugar Processing		$ 41,016	$ 348,346	-88.2
Pineapple Canning		2,952	2,377	24.2
Producing		312,069	284,633	9.6
Manufacturing		635,366	594,274	6.9
Wholesaling		6,093,885	5,366,585	13.6
Use (½%)		2,729,747	2,339,989	16.7
Intermediary Services		183,820	165,990	10.7
Insurance Commissions		184,364	147,451	25.0
Subtotal		$10,183,219	$ 9,249,645	10.1
TOTAL — ALL ACTIVITIES		$33,505,635	$29,944,946	11.9
TAX				
Retailing	4%	$ 438,006	$ 401,866	9.0
Services	4%	140,769	122,728	14.7
Contracting	4%	110,156	87,994	25.2
Hotel Rentals	4%	57,608	56,672	1.7
All Other Rentals	4%	98,048	87,585	11.9
All Others	4%	88,310	70,967	24.4
Subtotal		$ 932,897	$ 827,812	12.7
Sugar Processing	.50%	$ 205	$ 1,742	-88.2
Pineapple Canning	.50%	15	12	24.2
Producing	.50%	1,560	1,423	9.6
Manufacturing	.50%	3,177	2,971	6.9
Wholesaling	.50%	30,469	26,833	13.6
Use	.50%	13,649	11,700	16.7
Intermediary Services	.50%	919	830	10.7
Insurance Commissions	.15%	277	221	25.0
Subtotal		$ 50,271	$ 45,732	9.9
Unallocated*		41,811	46,251	- 9.6
TOTAL — ALL ACTIVITIES		$ 1,024,979	$ 919,795	11.4

NOTE: Due to rounding, details may not add to totals.

*The unallocated net collections category includes amounts resulting from collections from penalty and interest, assessments and corrections, delinquent collections, refunds, protested payments and settlements, etc.

TRANSIENT ACCOMMODATIONS TAX

Fiscal 1989 represented the state's second full year of experience with the transient accommodations tax. Whereas the number of operators who paid registration fees declined from 10,770 to 9,811, revenues increased 12.9% to $76.0 million, reflecting growth in the tourist industry.

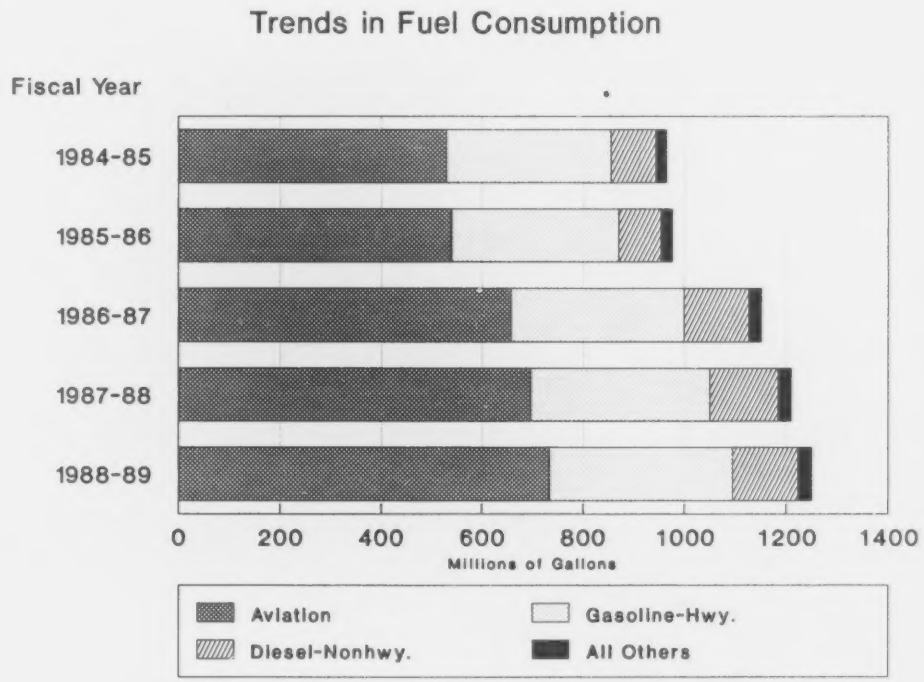
Since the transient accommodations tax rate is 5% and the general excise tax rate on hotel rentals is 4%, the expected ratio between these two revenue sources is 5 to 4. Fiscal 1989 transient accommodations tax revenue was $76.0 million while general excise tax revenue on hotel rentals amounted to $57.6 million, meaning that the ratio between these two totals was 1.32, slightly more than the expected 1.25 for a 5 to 4 relationship. In fiscal 1988, the ratio was slightly less at 1.19. But over the combined 2-year period the ratio was exactly the expected 1.25.

TRANSIENT ACCOMMODATIONS TAX
(In Thousands of Dollars)

	FY 1989	FY 1988	Difference
Transient Accommodations Tax	$75,973	$67,279	$ 8,694
Transient Accommodations Fees	10	11	(1)
TOTAL	$75,983	$67,290	$ 8,693

FUEL TAXES

Fuel consumption in the State rose by 40.8 million gallons, which represented a fairly moderate increase of 3.4%. By volume, aviation fuel embodied over half and gasoline over a quarter of the gallonage consumed.



GALLONS OF FUEL CONSUMED
(In Thousands of Gallons)

	FY 1989	FY 1988	Av. Annual Change (Percent) 1988-89	1985-89
Gasoline	361,848	353,492	2.4%	2.6%
Diesel Oil — Nonhighway	128,424	134,222	- 4.3%	9.2%
Diesel Oil — Highway	22,241	20,449	8.8%	5.5%
Liq. Pet. Gas — Off Highway	4,264	2,923	45.9%	10.2%
Liq. Pet. Gas — Highway	1,013	1,134	-10.7%	1.1%
Small Boats — Gasoline	52	83	-37.4%	-17.7%
Small Boats — Diesel Oil	806	973	-17.2%	26.3%
Aviation Fuel	732,866	697,468	5.1%	8.4%
TOTAL	1,251,514	1,210,744	3.4%	6.5%

NOTE: Due to rounding, details may not add to totals.

Fuel taxes are collected by the State but are revenue sources for both the State and the various counties. State fuel tax rates are set by the state legislature while the county councils set the county rates. These rates are summarized in the accompanying table.

FUEL TAX RATES PER GALLON[2]

	State	County	Total
GASOLINE AND DIESEL OIL (HWY. USE):			
City & County of Honolulu	11.0¢	11.5¢	22.5¢
County of Maui	11.0¢	8.0¢	19.0¢
County of Hawaii	11.0¢	8.8¢	19.8¢
County of Kauai	11.0¢	8.0¢[3]	19.0¢
LIQUID PETROLEUM GAS (HWY. USE):			
City & County of Honolulu	7.0¢	8.0¢	15.0¢
County of Maui	7.0¢	5.0¢	12.0¢
County of Hawaii	7.0¢	6.8¢	13.8¢
County of Kauai	7.0¢	3.0¢	10.0¢

Kauai County raised the rate on gasoline and diesel oil for highway use from 4 to 8 cents per gallon effective July 1, 1988. This doubling of the tax rate resulted in a 100% increase in fuel tax revenue for Kauai County from $0.9 to $1.8 million.

As a result of a rate increase that had become effective at the onset of the last quarter of fiscal 1988, Hawaii County also experienced a large 64% increase in fuel tax revenue to $4.5 million. That rate increase had raised the tax rate for gasoline, diesel oil and liquid petroleum gas for highway use by 3.8 cents per gallon effective April 1, 1988.

As a consequence of these rate changes, overall county fuel tax revenue rose 12.6% to $39.8 million while state fuel tax revenue increased only 2.5% to $43.1 million. County revenue accounted for 44% of fiscal 1989 fuel taxes compared to 42% in fiscal 1988 and 34% in fiscal 1987.

Revenue from the state tax on aviation fuel goes into the state airport fund. Other state fuel tax revenues accrue to the state highway fund, with a portion allocated to the state boating fund.

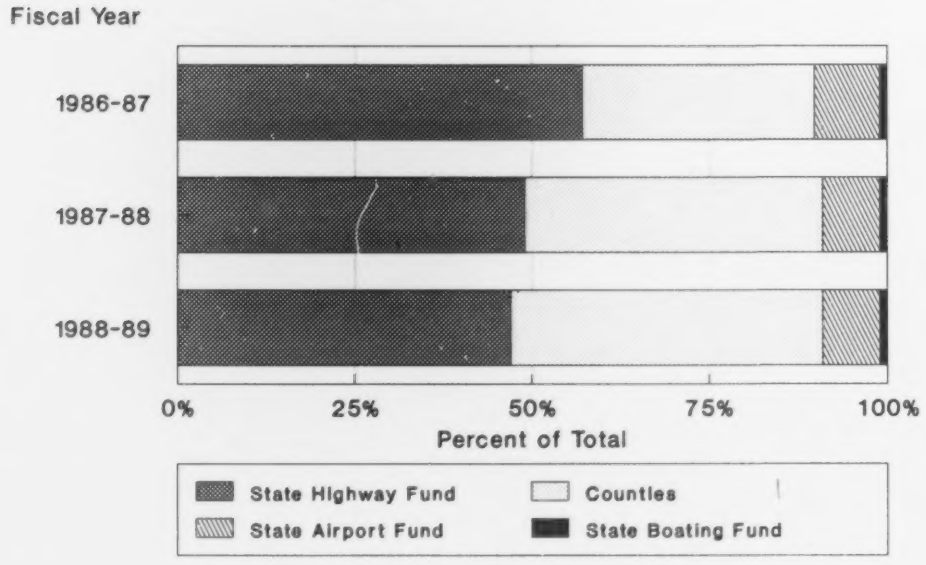
Besides fuel taxes, the state highway fund also accrues revenue from the state motor vehicle weight tax and accompanying registration fees. The weight tax and fees are administered and collected by the counties and transferred to the State. Revenue from this source increased 3.9% to $19.4 million.

---

[2]Gasoline used for agricultural equipment off highways, aviation fuel, and all other fuels used off highways are taxed by the State at one cent per gallon.

[3]Effective July 1, 1988.

Distribution of Fuel Tax Collections by Type of Fund



ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

	FY 1989	FY 1988	Difference
STATE HIGHWAY FUND:			
Gasoline	$39,261	$38,358	$ 903
Diesel Oil — Nonhighway	1,279	1,338	(59)
Diesel Oil — Highway	2,427	2,227	200
Liq. Pet. Gas — Off Highway	42	29	13
Liq. Pet. Gas — Highway	70	79	(8)
SUBTOTAL	$43,080	$42,031	$1,049
Motor Vehicle Weight Tax/Reg. Fees	19,387	18,663	724
TOTAL	$62,467	$60,694	$1,773
COUNTY HIGHWAY FUNDS:			
City & County of Honolulu	$30,027	$28,396	$1,631
County of Maui	3,487	3,326	161
County of Hawaii	4,543	2,771	1,772
County of Kauai	1,779	891	888
TOTAL	$39,837	$35,385	$4,452
BOATING SPECIAL FUND	$ 838	$ 782	$ 56
STATE AIRPORT FUND:			
Aviation Fuel	$ 7,329	$ 6,975	$ 354

NOTE: Due to rounding, details may not add to totals.

PUBLIC SERVICE COMPANY TAXES

Public service company tax revenue totaled $64.8 million in fiscal 1989, with $53.9 million coming from public utilities, $10.7 million from motor and contract carriers, and $0.2 million from penalties and interest. Total revenue was $1.3 million greater than the total for fiscal 1988.

PUBLIC SERVICE COMPANY TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1989	FY 1988	1988-89	1985-89
Public Service Company Taxes	$64,632	$63,412	1.9%	2.0%
Penalty & Interest	213	171	24.5%	19.6%
TOTAL	$64,846	$63,584	2.0%	2.0%

NOTE: Due to rounding, details may not add to totals.

INHERITANCE AND ESTATE TAXES

Estates of persons who died before June 30, 1983, are subject to the inheritance tax. For decedents after that date, a Hawaii estate tax is imposed only if the estate is subject to the federal estate tax.

A total of 2,147 estates were settled during the year, of which 250 were taxable. Total revenue amounted to $6.7 million, of which $2.7 million was contributed by the old inheritance tax. This amount indicates that quite a number of estates remain to be settled even after six years have passed since date of death.

INHERITANCE AND ESTATE TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1989	FY 1988	1988-89	1985-89
Inheritance Tax.....	$2,694	$2,026	32.9%	- 3.7%
Estate Tax	3,819	5,154	-25.9%	112.1%
SUBTOTAL	$6,512	$7,180	- 9.3%	10.2%
Penalty & Interest	163	134	21.7%	25.5%
TOTAL	$6,675	$7,314	- 8.7%	10.5%

NOTE: Due to rounding, details may not add to totals.

OTHER TAXES

Employment security contributions, which the Department of Taxation collects for the Department of Labor and Industrial Relations, declined 31%, reflecting a decrease in unemployment and a tax base reduction mandated by Act 240, SLH 1987. Conveyance tax revenue increased 23%, an indicator of activity in the real estate market and the increase in the value of real estate that changed hands during the year. Changes in revenue in other tax categories are summarized in the accompanying table.

MISCELLANEOUS TAXES
(In Thousands of Dollars)

	FY 1989	FY 1988	Av. Annual Change (Percent) 1988-89	1985-89
Banks & Other Financial Corp	$ 15,761	$ 12,036	30.9%	171.2%
Conveyance	5,183	4,211	23.1%	26.7%
Empl. Security Contributions	53,120	77,367	-31.3%	- 5.7%
Insurance Premiums	33,414	38,009	-12.1%	5.2%
Liquor & Permits	38,609	38,201	1.1%	14.4%
Tobacco & Licenses	24,413	21,318	14.5%	4.4%
General Excise Licenses & Fees	456	436	4.6%	3.5%
TOTAL	$170,955	$191,578	-10.8%	3.9%

NOTE: Due to rounding, details may not add to totals.

COLLECTION AND ACCOUNTING OF TAXES

TAX COLLECTIONS

Net tax collections by the Department of Taxation amounted to $2,235.9 million, an increase of 12.7% over the previous fiscal year's total of $1,984.7 million. These totals include fuel taxes collected by the department for the counties and employment security contributions collected for the Department of Labor and Industrial Relations. The following table summarizes these collections by taxation district.

DEPARTMENT OF TAXATION COLLECTIONS
(In Thousands of Dollars)

	FY 1989	FY 1988	Av. Annual Change (Percent) 1988-89	1985-89
OAHU				
Gross Collections*	$2,059,364	$1,823,084	13.0%	10.4%
Less Appeals, Payments Under Protest, Refunds, TDI	136,750	122,199	11.9%	2.4%
Net Collections by Department	$1,922,614	$1,700,885	13.0%	11.2%
MAUI				
Gross Collections*	$ 151,173	$ 134,037	12.8%	12.7%
Less Appeals, Payments Under Protest, Refunds, TDI	13,267	10,723	23.7%	4.7%
Net Collections by Department	$ 137,906	$ 123,315	11.8%	14.3%
HAWAII				
Gross Collections*	$ 135,510	$ 120,322	12.6%	10.6%
Less Appeals, Payments Under Protest, Refunds, TDI	15,086	12,705	18.7%	5.1%
Net Collections by Department	$ 120,425	$ 107,617	11.9%	11.7%
KAUAI				
Gross Collections*	$ 61,491	$ 58,728	4.7%	5.1%
Less Appeals, Payments Under Protest, Refunds, TDI	6,536	5,797	12.7%	- 4.5%
Net Collections by Department	$ 54,955	$ 52,931	3.8%	21.0%

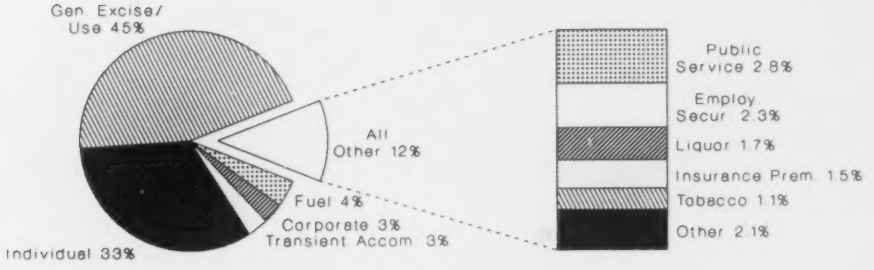
*Excludes conveyance, insurance premiums, and motor vehicle weight taxes.

Besides revenue collected by the Department of Taxation, state tax collections included $5.2 million in conveyance tax revenue collected by the Department of Land and Natural Resources, $33.4 million in insurance premium taxes collected by the Department of Commerce and Consumer Affairs, and $19.4 million in motor vehicle weight taxes and registration fees collected by the counties. Including these amounts, taxes collected by and for the State totaled $2,293.9 million as summarized in the following table.

TAX COLLECTIONS

SOURCE OF REVENUE	FY 1989 Amount Collected	FY 1989 % of Total	FY 1988 Amount Collected	FY 1988 % of Total
Banks — Financial Corps	$ 15,760,558	0.69%	$ 12,035,596	0.59%
Conveyance	5,182,639	0.23%	4,210,529	0.21%
Employment Security Contributions	53,120,216	2.32%	77,367,455	3.78%
Fuel	91,083,029	3.97%	85,172,185	4.16%
General Excise & Use	1,024,978,318	44.68%	919,795,623	44.96%
Income — Corporations	72,338,627	3.15%	66,017,436	3.23%
Income — Individuals	767,588,804	33.46%	626,008,717	30.60%
Inheritance and Estate	6,675,308	0.29%	7,314,264	0.36%
Insurance Premiums	33,413,502	1.46%	38,009,445	1.86%
Liquor and Permits	38,609,363	1.68%	38,201,225	1.87%
Motor Vehicle Weight/ Registration Fees	19,386,788	0.85%	18,662,632	0.91%
Public Service Companies	64,845,727	2.83%	63,586,627	3.11%
Real Property	0	0.00%	184,929	0.01%
Tobacco & Licenses	24,412,843	1.06%	21,318,154	1.04%
Trans. Accom. Fees	9,811	0.00%	10,770	0.00%
Trans. Accom. Tax	75,972,924	3.31%	67,278,746	3.29%
All Others	503,840	0.02%	455,804	0.02%
TOTAL	$2,293,882,297	100.00%	$2,045,630,137	100.00%

Tax Composition
Fiscal Year 1988-89



Source of Revenue

All Other

Over nine-tenths of total state tax collections went into the state general fund, to which accrues all revenue not specifically reserved for state special funds or county funds. Based on county fuel tax rates, $39.8 million in fuel tax revenue was transferred to the counties.

A total of $138.2 million, representing 6.0% of state tax collections was distributed to state special funds, as summarized in the accompanying table. The state's share of fuel tax collections was distributed to the state highway fund, the boating special fund, and the state airport fund. Tax revenue on aviation fuel, $7.3 million in fiscal 1989, went to the airport fund. The state highway fund received $43.1 million of the state's share of fuel tax revenue as well as the $19.4 million in motor vehicle weight taxes and registration fees collected by the counties on behalf of the State. In addition, the state highway fund received $14.1 million in general excise tax revenue as required by Act 239 of the 1985 legislature. The state election campaign fund accrued $335 thousand in individual income tax revenue based on checkoffs by taxpayers on their tax returns. Employment security contributions totaling $53.1 million went into the unemployment trust fund administered by the Department of Labor and Industrial Relations.

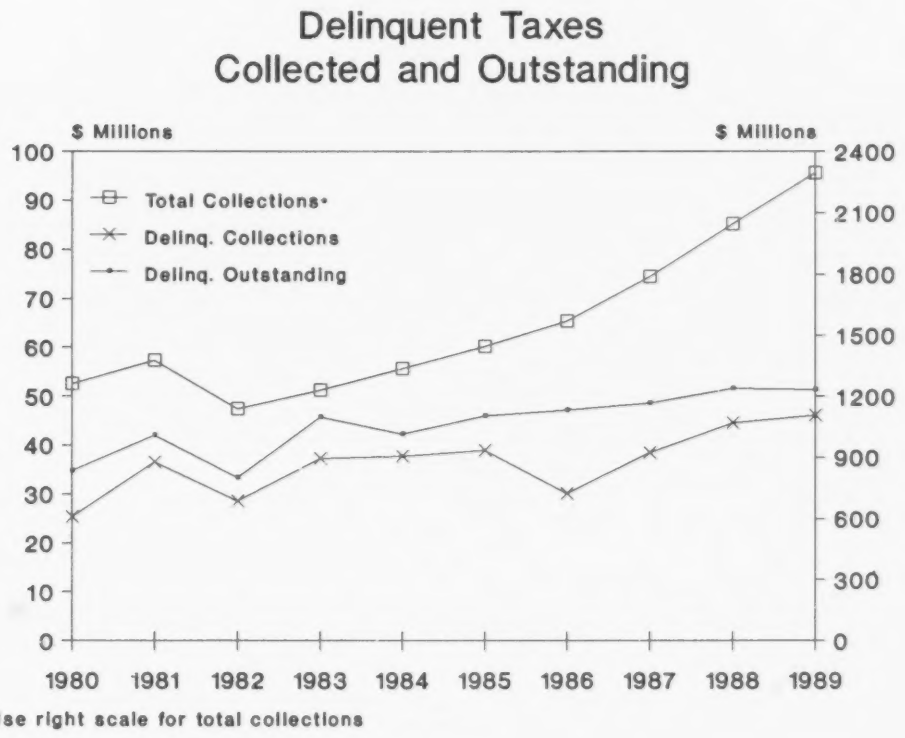
DISTRIBUTION OF COLLECTIONS

	FY 1989		FY 1988	
	Amount Collected	% of Total	Amount Collected	% of Total
STATE FUNDS:				
State General	$2,115,854,239	92.24%	$1,849,499,746	90.41%
State Highway	62,466,701	2.72%	60,693,645	2.97%
State Highway (Act 239, S.L.H. 1985)	14,103,011	0.61%	14,328,435	0.70%
State Airport	7,328,656	0.32%	6,974,679	0.34%
Boating Special Fund	837,544	0.04%	781,975	0.04%
Unemployment Trust	53,120,216	2.32%	77,367,455	3.78%
Election Campaign Fund	335,014	0.01%	414,756	0.02%
SUBTOTAL — STATE	$2,254,045,381	98.26%	$2,010,060,691	98.26%
COUNTY REVENUES:				
Property	$ 0	0.00%	$ 184,929	0.01%
Fuel	39,836,916	1.74%	35,384,517	1.73%
SUBTOTAL — COUNTIES	$ 39,836,916	1.74%	$ 35,569,446	1.74%
TOTAL	$2,293,882,297	100.00%	$2,045,630,137	100.00%

NOTE: Due to rounding, details may not add to totals.

DELINQUENT TAXES

At the beginning of fiscal 1989, 26,403 delinquent accounts representing $51.6 million in taxes were carried over from the previous year. During the year, 61,202 new accounts representing $48.0 million in taxes were added while 56,532 accounts yielding $48.2 million in gross collections were closed. After deducting $2.1 million for uncollectible accounts, the year's net collections totaled $46.1 million. At the end of fiscal 1989, 31,073 accounts representing taxes of $51.4 million were pending.



Although the Collection Division was able to close 4,842 more accounts than during the prior year, an increase of 9.4%, net collections rose by only 1.8% because the average net collection per account declined from $876 in fiscal 1988 to $816 in fiscal 1989.

STATE GENERAL FUND

GENERAL EXCISE TAX: The general excise tax is a tax on the privilege of doing business in the State as measured by the gross proceeds of business transactions. Hawaii is one of the few states having a gross receipts tax. This tax applies, with few exceptions, to all levels of business activities, including not only the consumer level, but also the producing, manufacturing, and wholesaling activities. The significant difference between Hawaii's general excise tax as compared to a sales tax is that the incidence of the tax is on the seller rather than on the purchaser. This tax applies to receipts from the sale of tangible personal property, services performed, and income from the investment of business capital, in such forms as interest, rentals, royalties, fees, etc.

The consumer level rate is 4% with the rate on producing, manufacturing, and wholesaling at ½ of 1%. Insurance solicitors and agents have a rate of 0.15%.

USE TAX: Under the use tax law, an excise tax is levied on the import or purchase of tangible personal property from an unlicensed seller for use or for resale at retail in the State. If the import is for resale, it carries the wholesaling rate of ½ of 1%; otherwise the rate is 4%, the same as for retailing.

INCOME TAXES: The Income Tax Law of 1957 adopted, with certain exceptions, the provisions of the Internal Revenue Code in the determination of gross income, adjusted gross income, and taxable income. Some of the significant exceptions applicable under Hawaii's law are: (1) taxation of cost-of-living allowances received by federal employees in Hawaii; (2) exclusion of most pension income; (3) allowance of $7,000 personal exemption for persons who are blind, deaf, or totally disabled; and (4) a deduction, up to $5,000 a year, for an individual housing account.

ESTATE AND TRANSFER TAX: Act 217 of the 1983 Legislature repealed the Inheritance and Estate Tax and established in its place the Estate and Transfer Tax for persons dying after June 30, 1983. The amount of tax is equal to the federal credit for state death taxes on estates subject to the federal estate tax.

LIQUOR AND TOBACCO TAXES: Hawaii taxes all tobacco products at a rate of 40% of the wholesale value, in contrast to other states which tax cigarettes on the basis of the number in the pack. Act 344 of the 1986 Legislature temporarily repealed the 20% wholesale tax on liquor and replaced it with a gallonage tax which was adjusted every six months. At the end of fiscal year 1989, the tax rates were: $5.75 per wine gallon on distilled spirits, $2.00 per wine gallon on sparkling wine, $1.30 per wine gallon on still wine, $.81 per wine gallon on cooler beverages, $.89 per wine gallon on beer other than draft, and $.50 per wine gallon on draft beer. Act 149, passed by the 1989 Legislature, retains the current method of taxing liquor and places a moratorium on the adjustment of tax rates until June 30, 1991.

PUBLIC SERVICE COMPANY TAX: This is a tax on public utility business in lieu of general excise and real property taxes. Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers is taxed at 5.35%. The rate on all other public utility gross income is based on the ratio of net to gross income. If this ratio is 15% or less, the rate is 5.885%, increasing by .2675% for each 1% increase in ratio of net to gross. The rate of motor carrier and contract carrier business is 4% of gross income.

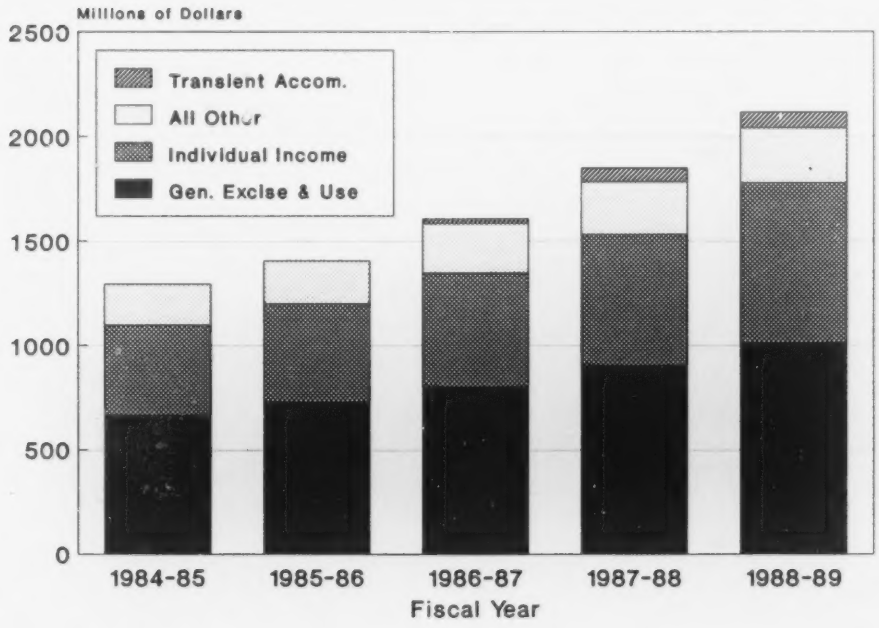
BANKS AND OTHER FINANCIAL INSTITUTIONS: A franchise tax in lieu of all other taxes, except real property, is imposed on both national and state banks, building and loan companies, financial services loan companies, and small business investment companies. The tax rate is 11.7% of taxable income measured by net income for the preceding year.

INSURANCE PREMIUM TAX: This is a tax on insurance companies based on premiums received in Hawaii and is in lieu of all taxes, except real property and taxes on the purchase, use or ownership of tangible personal property. This law is administered and the tax collected by the Insurance Commissioner, who is required to report to the director of taxation all amounts of taxes collected. The rates are: life insurance — domestic, 1.918% and foreign, 3.19%; surplus lines, 4.68%; ocean marine, .8775%; and other insurance — domestic, 2.9647% and foreign, 4.2824%. These rates are applicable to all premiums and gross underwriting profits received during the calendar year.

CONVEYANCE TAX: This tax is imposed, with certain exceptions, on all deeds, leases, subleases, assignments of lease, agreements of sale, instruments, writings, or other documents transferring ownership or interest in any land, tenement or other realty. The rate of tax is $.05 on each $100 of actual and full consideration paid with a minimum tax of one dollar on each taxable transaction. The purpose of this law is to tax the transfer or lease of real property and to acquire selling price data to determine market value which is needed to achieve uniformity in real property tax assessment.

TRANSIENT ACCOMMODATIONS TAX: This tax is imposed at a rate of 5% on the gross rental proceeds from furnishing accommodations to transients for less than 180 days. Exemptions are granted for health care facilities, school dormitories, nonprofit corporations, military personnel on permanent duty, government-subsidized low-income renters, full-time students, and complimentary accommodations.

Trends in General Fund Revenue



STATE GENERAL FUND

SOURCE OF REVENUE	FY 1989 Amount Collected	FY 1989 % of Total	FY 1988 Amount Collected	FY 1988 % of Total
Banks — Financial Corps	$ 15,760,558	0.74%	$ 12,035,596	0.65%
Conveyance	5,182,639	0.24%	4,210,529	0.23%
General Excise & Use	1,010,875,307	47.78%	905,467,188	48.96%
Income — Corporations	72,338,627	3.42%	66,017,436	3.57%
Income — Individuals	767,253,790	36.26%	625,593,961	33.83%
Inheritance and Estate	6,675,308	0.32%	7,314,264	0.40%
Insurance Premiums	33,413,502	1.58%	38,009,445	2.06%
Liquor and Licenses	38,609,363	1.82%	38,201,225	2.07%
Public Service Companies	64,845,727	3.06%	63,586,627	3.44%
Tobacco and Licenses	24,412,843	1.15%	21,318,154	1.15%
Trans. Accom. Fees	9,811	0.00%	10,770	0.00%
Trans. Accom. Tax	75,972,924	3.59%	67,278,746	3.64%
All Others	503,839	0.02%	455,804	0.02%
TOTAL	$2,115,854,238	100.00%	$1,849,499,745	100.00%

NOTE: Due to rounding, details may not add to totals.

SPECIAL PURPOSE TAXES

FUEL TAXES: The fuel tax is administered and collected by the State, but it is a source of revenue for both state and county governments. The county tax rates on each gallon of gasoline and diesel oil used on the highways are established by the council of each county. Revenue from fuel taxes goes into state and county special funds for use in the construction and maintenance of highways, roads, airports, and boating programs.

The county tax rates on gasoline and diesel oil used on the highways which were in effect at the end of this fiscal year are: 11.5 cents for the City and County of Honolulu, 8 cents for the County of Maui, 8.8 cents for the County of Hawaii, and 8 cents for the County of Kauai. The state rate is 11 cents for all gasoline and diesel oil used on the highways and 1 cent for gasoline, diesel and liquefied petroleum gas used off highways. The aviation fuel tax rate is 1 cent per gallon. To encourage the use of liquefied petroleum gas for antipollution purposes, the fuel tax on liquefied petroleum gas used on the public highways was reduced to two-thirds of the rates applicable to diesel oil used on the highways for both state and county purposes.

HAWAII EMPLOYMENT SECURITY TAX: The proceeds from this tax go into the unemployment insurance trust fund for the payment of benefits to unemployed workers while they are seeking new jobs. This is a tax on employers and is measured by wages and salaries paid. It is a variable tax rate of up to 5.4% and is based on the employer's past employment record. This law is administered by the Department of Labor and Industrial Relations, but the tax is payable to the director of taxation.

BRIEF SUMMARY OF HAWAII'S TAX SYSTEM

The high degree of centralization in Hawaii's tax structure enables the state government to utilize revenue sources in an effective manner. The general excise tax continues to be the major source of the state's general fund tax revenue, followed by the progressive individual income tax.

An outstanding characteristic of the state's tax structure is its use of income tax credits. These credits were designed to (a) provide relief to low-income taxpayers; (b) promote energy conservation; and (c) encourage public safety. Over the years, changes were made to simplify both the filing process and the administration of some of these tax credits.

Two tax credits intended for the lower-income taxpayers are the excise tax credit which may be claimed by resident taxpayers with adjusted gross income under $30,000 and the low-income renter's tax credit by taxpayers with adjusted gross income under $20,000 (raised to $30,000 by 1989 legislature effective January 1, 1989). Whereas the renter's credit is a flat credit based on the number of qualified exemptions, the excise tax credit is inversely graduated against adjusted gross income. The dependent care, energy, and child passenger restraint tax credits are available to qualified taxpayers of all income levels. A provision of Act 239, SLH 1987, made available to qualified resident individuals a $45 food tax credit beginning January 1, 1987. This refundable credit expires after December 31, 1990. Except for the child passenger restraint tax credit, all the other credits are available to resident taxpayers only.

For the taxable year 1988, Act 185 of the 1988 Legislature gave a one-time $1 general income tax credit to all residents of the State of Hawaii. This law was enacted to implement Article VII, Section 6, of the State Constitution, which mandates the legislature to provide for a tax refund or credit whenever general fund year-end balances exceed five percent of general fund revenues for two successive fiscal years.

Hawaii has sixteen separate tax laws of which thirteen are administered by the State. The remaining three — the motor vehicle weight tax, the public utility franchise tax, and the real property tax — are administered by the counties. Until July 1, 1981, the real property tax law was administered by the State, with the revenue from this source accruing to the counties. At present, the counties administer all of the real property functions. The counties also administer the state and county motor vehicle weight taxes, revenues from which accrue to the state and county highway funds. Revenues from eleven of the state-administered taxes go into the state's general fund and are used to provide the various services of the state government, including the health, education, and social services systems which are state functions in Hawaii. Although the fuel tax is administered by the State, it is a source of revenue for both state and county governments. The employment security tax is a dedicated tax, used exclusively to provide benefits to unemployed workers.



Customer service counter at the Maui District Office.

OUTLINE OF HAWAII TAX SYSTEM AS OF JULY 1, 1989

Issued by the Department of Taxation

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(1) Net Income Chapter 235 — Sec. 235-1 to 235-119	Tax rates for individuals as well as estates and trusts range from 2.0% to 10.0% of taxable income. The allowable standard deduction amounts vary by filing status. The standard deduction amount for married filing joint return or surviving spouse with dependent child is $1,900, single is $1,500, head of household is $1,650, and married filing separately is $950. Tax rates for corporations are 4.4% up to $25,000, 5.4% over $25,000 but not over $100,000, and 6.4% over $100,000.	Returns due 20th day of 4th month following the close of taxable year. Withholding returns due monthly on or before the fifteenth day of the following calendar month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the fifteenth day of the month after the close of each quarter. An annual employer's return and reconciliation of Hawaii income tax withheld Form HW-3 must be filed together with a duplicate copy of each employee's tax statement Form HW-2 on or before the last day of February following the close of the calendar year. Estimates of income of individuals not subject to withholding, April 20th. Estimates of corporations, September 20th.	In general, at time of filing returns. Estimates of individuals one-quarter April 20th, June 20th, September 20th, and January 20th. Corporations one-half September 20th and January 20th.
(2) Estate and Transfer (For decedents dying after 6/30/83) Chapter 236D — Sec. 236D-1 to 236D-18	Every resident descedent is taxed on transfer of taxable estate equal to federal credit for estate death taxes allowed by IRC section 2011. Credit is allowed for death tax imposed by another state not qualified by reciprocal provision. For nonresident decedent, tax is based on transfer of taxable estate located in Hawaii by use of ratio. Exemption afforded resident estate equally applicable to nonresident, with certain exceptions.	Report (Form M-6) must be filed by person responsible for filing federal Estate Tax Return (federal Form 706). No report required and no tax due when federal Form 706 not required. To obtain release of property, file Request for Release (Form M-6A).	On or before the due date for filing federal Form 706, including extensions of time, provided extension is submitted to Hawaii within 30 days of issuance.
(3) General Excise (Gross Income) Chapter 237 — Sec. 237-1 to 237-49	This is a business privilege tax measured by gross proceeds of sales or gross income. The tax rate is 1/2 of 1% on wholesaling and intermediary services, blind vendors, producing, manufacturing, sugar processing and pineapple canning, all other activities (retailing business and professional services, contracting, theatre, amusement, radio, interest, commissions, rentals) are taxed at 4%, except insurance commissions received by general agents, sub agents and solicitors who are taxed at 15%. The cost is $2.50, plus an additional 50¢ for certain retailing activities. Act 6, SLH 1989, eliminates the annual licensing fee and provides for the payment of a one-time $20 licensing fee for general excise tax licensees and nonprofit organizations, effective January 1, 1990.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed $2,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed $1,000 for the calendar year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year.	At time of filing returns.
(4) Use Chapter 238 — Sec. 238-1 to 238-16	This is an excise tax levied on tangible personal property which is imported or purchased from an unlicensed seller for use in the State. The tax is based upon the purchase price or value of the tangible personal property purchased or imported, whichever is applicable. Rates: 1/2 of 1%, if for resale at retail; 4%, if for use or consumption. For exceptions, see Sections 238-3 and 238-4.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed $2,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year. These returns have been consolidated with the general excise (gross income) tax returns and are filed simultaneously.	At time of filing returns.
(5) Transient Accommodations Tax Chapter 237D — Sec. 237D-1 to 237D-17	This is a tax levied on the furnishing of a room, apartment, suite, or the like which is customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, horizontal property regime or cooperative apartment, rooming house, or other place in which lodgings are regularly furnished to transients for consideration. The tax is imposed at the rate of 5 percent. Act 199, SLH 1989, eliminates the annual registration and renewal fee of $1 for transient accommodations operators, and provides for a one-time registration fee of $5 for each registration consisting of one to five units and $15 for six or more units, effective January 1, 1990.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed $2,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed $1,000 for the calendar year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year.	At time of filing returns.
(6) Public Service Company Chapter 239 — Sec. 239-1 to 239-11	Nature of Tax — (1) Public utility business in lieu of general excise and real property taxes. (a) Measurement of assessment — general rule. Gross income from public utility business of public utilities for preceding calendar year. For exception, see Section 239-9. (b) Rates. (i) Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers, 5.35%. (ii) Sale of its products or services to another public utility which resells such products or services, 1/2 of 1%. (iii) All other revenues. If ratio of net to gross income is 15% or less, 5.885%, for each 1% increase in ratio of net to gross, rate increase .2675%. (2) Motor carrier, common carrier by water and contract carrier business (other than motor carrier business) in lieu of general excise tax. (a) Measurement of assessment — general rule. Gross income from motor carrier, common carrier by water and contract carrier business for preceding calendar year. For exception, see Sections 239-9 and 239-11. (b) Rate. 4% of gross income.	Returns filed on or before April 20th, based upon calendar year operations of preceding year.	First installment at time of filing return or, on or before April 20th. Other installments on 20th of June, September and December.

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(7) Banks, Building and Loan, Financial Services Loan Companies and Certain Other Financial Corporations Chapter 241 — Sec. 241-1 to 241-7	(1) (a) Assessment Date. January 1. (b) Nature of Tax. a franchise tax on banks, building and loan, financial services loan companies, financial corporations, small business investment companies, and development companies not subject to taxes imposed by Chapters 235 and 237. (2) Measure of Assessment. Net income for the preceding year from all sources as defined by Chapter 235 (Income Tax Law) with modifications. (3) Rate. 11.7% of taxable income.	Returns filed on or before April 20th, or the 20th day of the fourth month following the close of the fiscal year.	First installment at the time of filing return, or, on or before the 20th day of the 4th month. Other installments due on the 20th day of the 2nd, 5th and 8th month thereafter.
(8) Fuel Chapter 243 — Sec. 243-1 to 243-16	Distributors, as defined, are required to pay 1¢ per gallon on aviation fuel, an initial 1¢ per gallon on diesel oil, liquefied petroleum gas for operation of an internal combustion engine and from 19.8¢ to 27.5¢ per gallon on liquid fuels other than the foregoing, also, pay additional taxes from 19.8¢ to 27.5¢ per gallon on diesel oil and from 13¢ to 18¢ per gallon on liquefied petroleum gas used to operate motor vehicles upon the public highways, however, they are not required to pay these additional taxes if purchasers furnish Exemption Certificates, Form M-38. Refunds of liquid fuel used for agricultural equipment not operated upon the public highways or diesel oil and liquefied petroleum gas used for motor vehicles not operated upon the public highways may be claimed on Form M-36. Distributors are required to register and be licensed. Licenses are valid until revoked.	Returns are due monthly on or before the last day of the following month.	At time of filing returns.
(9) Liquor Chapter 244D — Sec. 244D-1 to 244D-17	This is a gallonage tax imposed upon "dealers" as defined in the law and certain others who sell or use liquor. A $2.50 liquor tax permit is required and must be renewed before July 1st of each year. See Sec. 244D-4 for exemption from tax. Act 344, SLH 1986, generally provides that the initially established tax rates are to be adjusted automatically on January 1, or July 1, as the case may be. Effective January 1, 1989, the tax rates per wine gallon are $5.75 on distilled spirits, $2.00 on sparkling wine, $1.30 on still wine, $.81 on cooler beverages, $.89 on beer other than draft beer, and $.50 on draft beer. Act 149, SLH 1989, suspends the adjustment of liquor tax rates for the period beginning on June 7, 1989, and ending on June 30, 1991.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(10) Tobacco Chapter 245 — Sec. 245-1 to 245-15	"Wholesalers" as defined in the law and certain others must pay an excise tax on sale or use of tobacco products, equal to 40% of the wholesale price. A $2.50 tobacco tax license is required and must be renewed before July 1st of each year.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(11) Conveyance Chapter 247 — Sec. 247-1 to 247-13	This tax is imposed on all documents transferring ownership or interest in real property. The rate is 5¢ per $100.00 of the actual and full consideration paid or to be paid. Minimum $1.00 tax for each taxable transaction. (Documents of certain conveyances are exempted).	A certificate of conveyance must be filed with the document at the Bureau of Conveyances within 90 days after a taxable transaction; a claim for exemption from the conveyance tax must be filed for certain exempt conveyances.	At time of filing the certificate, but no later than 90 days after the taxable transaction.
(12) Hawaii Employment Security (Federal) Chapter 383 — Sec. 383-1 to 383-176	This is a tax on wages paid, payable by employing units with one or more employees with certain exemptions. The unemployment insurance tax is the sum of an employer's basic contribution rate and the fund solvency contribution rate. The basic contribution rate will reflect the employer's own experience with unemployment and the fund solvency rate will reflect the trust fund's financial condition and experience of all covered employers. An employer's total contribution rate will not be less than 0% or greater than 5.4%.	Returns filed on or before the last day of the month following the taxable quarter.	At time of filing returns.
(13) Insurance Premiums Chapter 431 — Sec. 431:7-201 to 431:7-205	Tax on insurance companies (Underwriters) based on premiums received in Hawaii. In lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax Rates. Life Insurance Domestic 1.918%, Foreign 3.197%, 4.68% on Surplus Lines. Ocean Marine .8775% on gross underwriting profit, on other Insurance Domestic 2.9547%, Foreign 4.2824%. This law is administered and the tax collected by the Insurance Commissioner who is required to report to the Director of Taxation all amounts of taxes collected under this chapter.	Monthly or quarterly interim statements based on previous year's liability filed on or before the last day of the calendar month following the reporting period. Annual statement filed on or before March 15th with the Insurance Commissioner.	At time of filing statements.

DEPARTMENT OF TAXATION

TRAINING PROGRAMS FOR FISCAL YEAR
ENDING 6/30/89

Training Course	No. of Employees	Hours of Training
1. NATA 1988 Workshop on Computer Application Programming in State Tax Administration	2	48
2. Interstate Tax Planning	1	24
3. Emerging Issues in S Corporations	2	16
4. Effective Speech Writing	2	16
5. FTA Conference on Revenue Estimating	1	24
6. Labor Relations for Middle Managers	6	48
7. Seminar on How to Get Things Done	1	7
8. Interviewing and Selection Workshop	19	152
9. Interpersonal Communication	1	8
10. Writing Skills Refresher	5	40
11. 1988 Conference for Volunteer Program Directors	2	32
12. Introduction to IBM-PC DOS	7	21
13. Introduction to Lotus 1-2-3	3	9
14. Introduction to WordPerfect	2	6
15. Intermediate IBM-PC DOS	3	9
16. Introduction to dBASE III Plus	8	24
17. Intermediate Lotus 1-2-3	2	6
18. Intermediate dBASE III Plus	2	6
19. Ethics for State Employees	10	25
20. Successful Telephone Techniques	4	32
21. HAPA 1988 Income Tax Update	8	128
22. Time Management	4	32
23. Creative Problem Solving	1	8
24. Improving Your Memory	4	32
25. 1988 FTA Annual Meeting	1	24
26. IRS — Change and Complexity as Barriers to Taxpayer Compliance	1	24
27. DOTAX Supervisors Workshop	23	115
28. The Hawaii Information Network and Technology Symposium	3	90
29. Multi-State Tax Commission — Litigation Committee Meeting	1	8
30. EEO/AA Workshop	4	16
31. Tax Research Using the CCH Tax Service	20	40
32. Labor Relations Training — First Line Supervisors	1	8
33. Economic Development Workshop	1	22
34. Basic Factual Reporting	1	8
35. Effective Letterwriting	3	24
36. How to Work With Impossible People	1	8
37. Turn-Of-The-Year II Conference	15	240
38. 25th Annual Hawaii Tax Institute	10	400
39. Managing Manager's Time	2	12
40. Current Technology in Microcomputers	2	16
41. 1988 Clerical Seminar	59	472
42. DOTAX Second Annual Management Conference	38	304
43. Introduction to IBM-PC	2	6
44. Introduction to Displaywrite IV	2	6
45. NSTP Workshop on Changes Affecting 1988 Returns	3	36
46. Advanced WordPerfect	1	3
47. Supervisory Skills Training	1	8
48. How to Handle Difficult People	9	72
49. Employment and Labor Law Developments	1	4

Training Course	No. of Employees	Hours of Training
50. How to Give Exceptional Customer Service	1	8
51. Managing Stress in the Office	1	8
52. 11th Annual Tax Administration Workshop	1	16
53. Hard Disk Management	4	12
54. Hazard Communication Workshop	2	4
55. Computer/VDT Safety Orientation	1	2
56. Seminars on Advanced Sales and Use; Advanced Interstate	2	48
57. Creating Successful Budgets for Program Support	2	32
58. Lotus: Macros	2	6
59. Disaster Response and Assistance Training Workshop	1	24
60. Editing for Managers	1	8
61. 57th Annual FTA Meeting	2	48
62. Asbestos Awareness Program	8	16
63. Sales and Use Tax Update	1	16
64. Interstate Tax Planning	1	24
65. EEO for Managers and Supervisors	9	72
66. Professional Presentation Skills	1	8
67. Women, Men and Changing Images	1	5
68. Information Systems Project Management Seminar	2	48
69. DOS	1	3
70. Intermediate DOS	1	3
71. 21st Annual Board of Review Conference	9	20
72. Documenter Training	1	12
73. EEO Training for State Enforcement Officers	2	16
74. 15th Annual National Conference of the American Association for Affirmation Action (AAAA)	1	32
75. 1989 Conference of Civil Service Commissioners and Personnel Directors	1	18
76. Management Development and Leadership Academy (MDLA)	1	114
TOTAL	365	3,342

NOTE: List does not include certain general interest training.



Maui District Office work area.

COUNCIL ON REVENUES

J. Ming Chew, Chairperson
David Ramsour, Vice Chairperson

Jeffrey Agader
Creighton Arita
Jensen Hee
Lowell Kalapa

BOARDS OF REVIEW

FIRST TAXATION DISTRICT (OAHU)

Roy K. Amemiya, Jr., Chairperson
Robert F. Maynard, Vice Chairperson

Craig K. Hirai
Isoo (Dick) Oshima
Theodore O. Talbott

SECOND TAXATION DISTRICT (MAUI)

Joseph A. Frye, Chairperson
George Y. Kondo, Vice Chairperson

Harriet Mokihana Davis
Gerald N. Hiyakumoto
Robert S. Ota

THIRD TAXATION DISTRICT (HAWAII)

Fred T. Yamashiro, Chairperson
Brian J. Ikawa, Vice Chairperson

Edwin T. Hara
Albert "Benny" Rodero
Timothy S. Young

FOURTH TAXATION DISTRICT (KAUAI)

Lovey Leinaala Apana, Chairperson
Kazuo Senda, Vice Chairperson

Harold Aiu
Erlinda Salvador
Wallace K. Tasaka

TAX REVIEW COMMISSION

John R. Marks, Chairperson
Addie L. Lamberth, Vice Chairperson

Richard James Dahl
Mark N. Henry
Joan Lee Husted
Randall W. Roth
Alan M.L. Yee



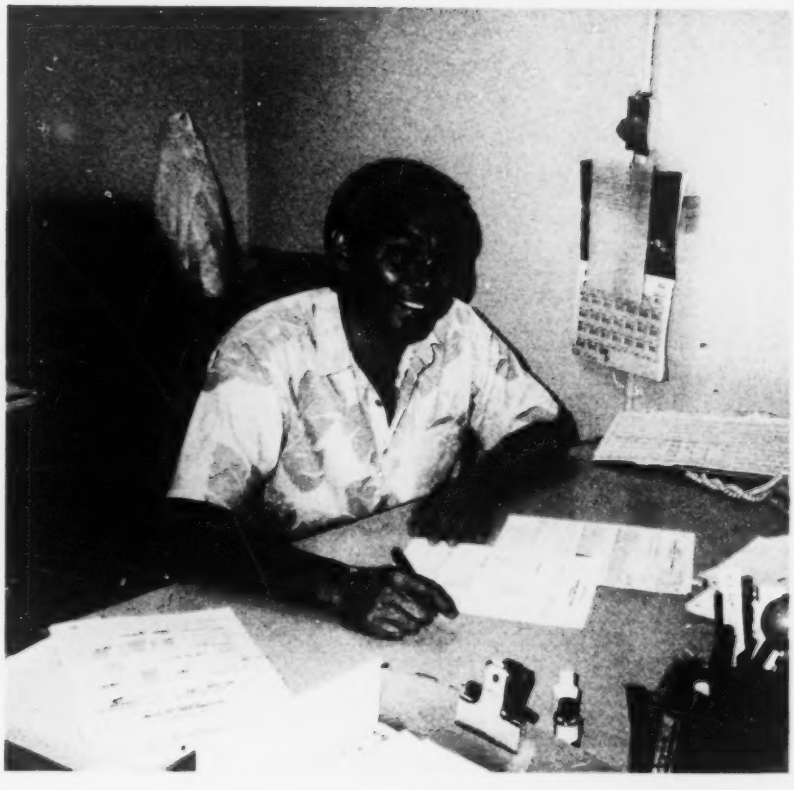
Maui District Office staff.



The Department of Taxation's Second District Office is located in the State Office Building at 54 South High Street in Wailuku.



Janis Shinyama,
Maui District Tax Assessor.



Stanley Ching,
Maui District Tax Collector.